



UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.

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on the 17th day of December, 1999

**INTRA-ALASKA MAINLINE**

**SERVICE MAIL RATES**

Docket **OST-95-429** - 107

(Docket **38961**)

**ORDER ESTABLISHING EMERGENCY FUEL ADJUSTMENTS and  
QUARTERLY FUEL COST UPDATES**

**Summary**

By this order the Department grants the petition of Northern Air Cargo (**NAC**) and Alaska Airlines to make an ad hoc, emergency adjustment to the mail rate **finalized** by Order **99-9-13** to reflect recent large **fuel** price increases. The order also establishes quarterly updates for the fuel portion of the mail rate's **linehaul** element until **further** notice.

**Background**

By Order **99-9-13** the Department made final the tentative rate established by Order **99-7-16** for mainline mail rates for the period October **1, 1999**, through September **30, 2000**. On October **6, 1999**, **NAC** filed a petition for an ad hoc mail rate adjustment to the rate. On October **22**, Alaska Airlines submitted an answer supporting **NAC's** petition. **Both** carriers assert that their fuel costs have shown substantial increases **from** the level built into the current rate, as set forth in Order **99-9-13**. Data submitted by **NAC** showed that from a baseline unit cost per available ton-mile (ATM) of **\$.101223** for fuel in the current order, fuel costs increased by **24%** in the second quarter of **1999** to **\$.125922** per ATM, and increased **8%** further in the third quarter to **\$.136487** per ATM.<sup>1</sup> The carriers assert that it would be an unreasonable burden for them to have to bear the discrepancy **between** actual and projected fuel costs for almost an entire year, through October **1, 2000**, **when** the next regular **update** of the rate is scheduled to occur. The carriers also note that **the** Department made **fuel** cost adjustments for similar increases in the cost of fuel during the Persian Gulf War.

The Postal Service, in a reply dated November **30, 1999**, said that it

"would have no objection in principle were the Department to separate aviation fuel costs **from** the cost base for the line haul rates and establish fuel cost adjustments on a quarterly basis. Our 'agreement to such an adjustment is, however, predicated on the assumption that the fuel cost adjustments will apply to

<sup>1</sup> These numbers may differ slightly **from** those in Appendix C, due to **NAC's** exclusion of its Hercules costs. **NAC** wet-leased a small amount of service with Hercules aircraft **from Lynden** and we have included these data in Appendix C.

the Mainline class as a whole, and will be based on the fuel costs of the entire Mainline class and not just on those of **NAC** and Alaska Airlines. We would object to a methodology which would establish a fuel cost adjustment for the entire Mainline class based on the reported fuel costs of only two of the carriers.”<sup>2</sup>

### Discussion

The current structure for updating mail rates was established by **the** Department in Order **97-9-37**, and reflects recommendations made in a Final Report on the Review of the Alaska Mail Ratemaking Methodology, issued by the Department on September 2, 1997, following more than a year of discussions between the Postal Service, the carriers, and the Department. As relevant to this proceeding, the Department decided in Order **97-9-37** to extend the intervals between mail rate updates **from** six months to twelve, and to isolate and to base the fuel cost element of the rate on the most recent experience without projecting an inflation or deflation factor.<sup>3</sup>

There was some disagreement among the parties as to whether annual or semi-annual updates for **fuel** were appropriate, as the discussion on page 20 of the Final Report shows. All parties acknowledged that the Department has the authority to open rates on an ad hoc, emergency basis whenever disruptions occur. Alaska Airlines argued that,

“updating **fuel** costs on a semi-annual basis will substantially reduce the necessity for either the Carriers or the USPS to request emergency rate reviews. Such reviews should be limited to extreme cost peaking due to political crises, etc. rather than normal market fluctuations.”

The Department chose to rely on its authority to make ad hoc adjustments when emergencies presented themselves so as to minimize the administrative burden on the parties of more **frequent** updates. We noted that,

“Our experience over time has been that such occasions are **infrequent** and that performing more **frequent** routine updates solely for one cost item would not materially affect the rates and would impose an additional, unnecessary burden on all parties.”

### Decision

The cost data submitted by **NAC** and Alaska do reflect a significant increase in **fuel** prices, as the petitioners assert. Moreover, the Postal Service does not object to the request for a **fuel** adjustment, subject to comments on the basis for calculating one. Therefore, consistent with the procedural guidelines discussed in the Final Report and adopted in Order **97-9-37**,

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<sup>2</sup> For a number of years the Department has used **NAC**’s and Alaska Airlines’ reported costs as the basis for setting the industry mail rates because those two carriers had transported the bulk of the mainline mail within Alaska. Two new carriers, Lynden and Tatonduk, have more recently begun mainline operations and now they also transport a significant amount of mainline mail in Alaska. In Order 99-7-16 the Department indicated it would explore adding Lynden and Tatonduk to the pool of carriers during the next rate update.

<sup>3</sup> The order established that for all expenses except fuel, long-term cost trends would be used to project costs from the base period to the projected rate year instead of the more volatile year-over-year changes previously used. Because there was no long-term trend in fuel costs (fuel costs have historically increased and decreased with great volatility over time), the consensus was to apply no inflation factor to changes in fuel costs, and to merely use the most recent annual fuel costs.

we will grant the petition and make an ad hoc adjustment to the mail rate based on more recent fuel costs. Because the fuel market appears to remain volatile at this time, we will make quarterly updates for fuel costs until further Department action. With that **frequency** of updates we will be both responsive to any further serious fuel cost fluctuations on a timely basis and consistent with the parties' strong preference for final rates, i.e., rates that are not retroactively adjustable. Because the carriers petitioned the Department on October 6, we will, however, make the first adjustment effective on that date.

This order makes the first two adjustments to the rate based on second and third quarter **1999** fuel costs, respectively. For future fuel-related adjustments, since the carriers' **traffic** and financial data are to be reported **45** days after the end of the accounting period, we will make each quarterly adjustment effective on the first day of the quarter following the end of the prior reporting period. Thus the fuel costs reported for the quarter ended September **30** will determine the fuel adjustment in the quarter beginning January **1**. We will not make any changes to non-fuel costs.

The Postal Service states that it would object to making these ad hoc adjustments unless the fuel costs of **Lynden** and **Tatonduk** were added to the pool. We agree with the Postal Service's position that **Lynden** and **Tatonduk** should be added to the cost pool so that the mail rate is more reflective of the costs of the entire industry, and we stated in Order **99-7-16** that we would consider adding those carriers to the next regular update. Both carriers have begun reporting financial and **traffic** information on the same basis as **NAC**, and the Department is in the process of validating those submissions. It would be premature, however, to add them at this time. Indeed it would be inappropriate to include two new carriers' data to calculate an adjustment for **fuel** costs only, when their experience is not reflected in calculations for the other rate elements.

The fuel cost per available ton mile is a function of several factors: price per gallon, burn rate, and aircraft capacity as measured by available ton miles (**ATMs**). Our intent in this order is to identify and adjust for the large increase in fuel price per gallon. That increase is reflected in **NAC's** and Alaska Airlines' fuel costs per ATM. Including **Lynden's** and **Tatonduk's** fuel costs per ATM could skew the calculations in a manner not reflective of just the increase in price per gallon by introducing elements of the burn rates and capacity of their respective aircraft fleets. In addition, it would not be appropriate in an ad hoc emergency fuel adjustment to add additional carriers' fuel costs per ATM, which might be lower than those of Alaska Airlines and **NAC**, while systematically excluding their non-fuel **linehaul** and terminal costs, which may be considerably higher than those of Alaska Airlines and **NAC**.

For those reasons we will not include data for **Lynden** and **Tatonduk** for the isolated purpose of calculating this ad hoc adjustment. As noted, however, we do intend to add **Lynden** and **Tatonduk** for the next full update to be effective October **1, 2000**.

As a final matter, in order to establish the appropriate level for the fuel adjustment, we direct Alaska Airlines to submit special quarterly reports detailing its **intra-Alaska** fuel cost per ATM. The carrier has supplied this information for this fuel adjustment and must continue to do so to enable us to calculate fuel costs on a quarterly basis.

ACCORDINGLY,

1. The fair and reasonable **final** rates of compensation to be paid in their entirety by the Postmaster General pursuant to the provisions of **49 U.S.C. 41901** for the transportation of mail by aircraft having a payload exceeding **7,500** pounds, the facilities used and useful therefor, and the service connected therewith, by each holder of a certificate authorizing the transportation of mail by aircraft within the State of Alaska for the periods beginning October **6, 1999**, through March **31, 2000**, or until further order of the Department, whichever occurs later, are those specified in the attached Appendix A;
2. We direct Alaska Airlines to continue submitting, on a quarterly basis, <sup>4</sup> no later than **45** days after the end of each calendar quarter, the information required for calculating its **intra-Alaska** fuel cost per available ton-mile, until further Department action;
3. We direct **Lynden** and **Tatonduk** to report all the information required to calculate their **Intra-Alaska** line-haul and terminal mail costs for the purpose of being added to next year's mainline mail rate proceeding, including **Intra-Alaska** scheduled block hours, and work with the staff so that information is reported on a systematic, on-going basis;
4. This docket will remain open until further order of the Department; and
5. We shall serve this order upon parties on the Service List for this Docket.

By:

A. BRADLEY **MIMS**  
Assistant Secretary for -Aviation  
and International Affairs

(SEAL)

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<sup>4</sup> NAC already submits the required data on a quarterly basis.

**INTRA-ALASKA MAINLINE CLASS SERVICE MAIL RATES**

Effective: Initial Period, October **6, 1999**, through December **31, 1999**.

Effective: Following Period, January **1, 2000**, through March **31, 2000**.

Base Year	2nd Quarter	Initial Period	3rd Quarter	QE 3/31/00
<u>Rates 1/</u>	Adjustment	<u>Final Rates 3/</u>	Adjustment	<u>Final Rates 4/</u>
	<u>Factors 2/</u>		<u>Factors 2/</u>	

**Linehaul Charge per Billing Ton-Mile**

Priority	<b>\$1.1969</b>	<b>23.60%</b>	<b>\$1.4794</b>	<b>26.38%</b>	<b>\$1.5126 4/</b>
Non-priority	<b>\$.7246</b>	<b>23.60%</b>	<b>\$.8956</b>	<b>26.38%</b>	<b>\$.9157 4/</b>

**1/** Per Order **82-11-23**

**2/** See Appendix B

**3/** Column **(1)** increased by Column **(2)**.

**3/** Column **(1)** increased by Column **(4)**.

Appendix B

**INTRA-ALASKA CLASS SERVICE MAIL RATES COST ADJUSTMENT FACTORS**

	Base Year Ended <u>9/30/80 1/</u>	2nd Quarter <u>Unit Costs</u>	3rd Quarter <u>Unit Costs</u>
Unit Cost per Available Ton-Mile			
Fuel 1/		\$ .125454	\$ .136555
Nonfuel		<u>\$ .368302</u>	<u>\$ .368302</u>
Total	\$ .399469	\$ .493756	\$ .504857
Percentage Change from Base Year		23.60%	26.38%

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1/ See Appendix C.

QE June 30, 1999

QE September 30, 1999

Northern Air Cargo

		2162	5562	7112		2162	5562	7112
	<u>Total</u>	<u>DC-6</u>	<u>Hercules 1/</u>	<u>B-727</u>		<u>Total</u>	<u>DC-6</u>	<u>B-727</u>
Fuel	\$2,172,226	\$1,097,166	\$13,326	\$1,061,734		\$2,075,963	\$800,400	\$1,198,696
Intra-Alaska Skd. Hrs.	2,355	1,546	44	765		2,089	1,101	891
System Hrs.	2,587	1,708	44	835		2,334	1,325	912
Intra Alaska Fuel	\$1,979,154	\$993,102	\$13,326	\$972,726		\$1,913,048	\$665,087	\$1,171,094
Intra-Alaska Skd. ATMs	9,054,466	3,793,183	274,810	4,986,473		8,747,672	2,454,766	5,696,781
Alaska Fuel Cost/ATM	\$0.218583	\$0.261812	\$0.048492	\$0.195073		\$0.218692	\$0.270937	\$0.205571

Alaska Airlines

	<u>Total</u>	<u>737-200</u>	<u>737-400</u>	<u>737-700</u>	<u>MD-80</u>		<u>Total</u>	<u>737-200</u>	<u>737-400</u>	<u>737-700</u>	<u>MD-80</u>
Fuel	\$39,611,000	\$3,453,000	\$17,262,000		\$18,896,000		\$49,751,000	\$4,664,000	\$21,786,000	\$381,000	\$22,920,000
Intra-Alaska Skd. Hrs.	7,492	4,622	2,407		463		8,567	5,159	2,708	0	700
Dometic Hrs.	86,660	6,485	39,817		40,358		93,736	7,465	43,205	844	42,222
Intra-Alaska Fuel	\$3,721,324	\$2,461,028	\$1,043,515		\$216,781		\$4,968,744	\$3,223,252	\$1,365,501		\$379,991
Intra Alaska ATMs	36,384,365	22,055,426	12,096,983		2,231,956		41,648,037	24,439,005	13,865,920	0	3,343,112
Alaska Fuel Cost/ATM	\$0.102278	\$0.111584	\$0.086262		\$0.097126		\$0.119303	\$0.131890	\$0.098479		\$0.113664

Intra-Alaska Fuel \$5,700,478  
Intra-Alaska ATMs 45,438,831  
Intra-Alaska Fuel/ATM \$0.125454

\$6,881,792  
50,395,709  
\$0.136555

1/ Fuel portion of the cost of the wet leased aircraft from Lynden estimated on the basis of Lynden's fuel cost as a percentage of direct operating cost.